

**MILFORD MUNICIPAL UTILITIES**  
**INDEPENDENT AUDITORS' REPORTS**  
**FINANCIAL STATEMENTS**  
**AND SUPPLEMENTAL INFORMATION**  
**JUNE 30, 2008 AND 2007**



## TABLE OF CONTENTS

	<u>Page</u>
Officials .....	1
Independent Auditors' Report.....	2 - 3
Management's Discussion and Analysis.....	4 - 8
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets .....	9
Statement of Activities .....	10
Enterprise Fund Financial Statements:	
Statement of Fund Net Assets .....	11 - 12
Statement of Revenue, Expenses and Changes in Fund Net Assets .....	13
Statements of Cash Flows .....	14 - 15
Notes to Financial Statements .....	16 - 25
Required Supplementary Information:	
Budgetary Comparison Schedule of Revenues, Expenses And Changes in Balances – Budget and Actual .....	26
Notes to Required Supplementary Information – Budgetary Reporting .....	27
Other Supplementary Information:	
Schedule of Direct Costs, Operating Expenses, And Administrative Expenses.....	28 - 31
Independent Auditors' Report on Internal Control Over Financial Reporting And On Compliance and Other Matters .....	32 - 33
Schedule of Findings.....	34 - 35

**MILFORD MUNICIPAL UTILITIES  
MILFORD, IOWA**

**June 30, 2008**

**OFFICIALS  
(Before January 2008)**

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
James Studer	Trustee (Chairman)	December 31, 2007
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2008
Gary Moeller	Trustee	December 31, 2011
Tom Cooper	Trustee	December 31, 2009

**OFFICIALS  
(After January 2008)**

James Studer	Trustee (Chairman)	December 31, 2013
Steve Feld	Trustee (Vice Chairman)	December 31, 2012
Keith Wurtz	Trustee	December 31, 2008
Tom Cooper	Trustee	December 31, 2009
Don Olsen	Trustee	December 31, 2011
Robert Sewell	General Manager	
Joyce McCrea	Office Manager/Board Secretary	

**INDEPENDENT AUDITORS' REPORT**

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the accompanying financial statements of the business-type activities and each major fund of Milford Municipal Utilities (Utility), a component unit of the City of Milford, Iowa as of and for the year ended June 30, 2008, which collectively comprise Milford Municipal Utilities' basic financial statements listed in the table of contents. These financial statements are the responsibility of the Utility's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and each major fund of Milford Municipal Utilities at June 30, 2008, and the respective changes in the funds' financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 7, 2008 on our consideration of Milford Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 25 and 26 are not required parts of the basic financial statements, but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Milford Municipal Utilities' basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in our audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

*Williams & Company, P.C.*  
Certified Public Accountants

Spencer, Iowa  
November 7, 2008

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Milford Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the year ended June 30, 2008. We encourage readers to consider this information in conjunction with the Utilities' financial statements, which follow.

### 2007-08 FINANCIAL HIGHLIGHTS

- ◆ The Utilities revenues increased 7.6%, or approximately \$246,000, from fiscal 2007 to fiscal 2008.
- ◆ Expenses decreased by 1.8%, or approximately \$53,000, in fiscal 2008 from fiscal 2007.
- ◆ The Utility's net assets increased 7.4% or approximately \$600,000 during 2008.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the Utility as a whole and present an overall view of the Utility's finances.

Fund financial statements report the Utility's operations in more detail by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year.

The Other Supplementary Information in Schedule 1 is unaudited and provides detailed information about the usage levels of each utility.

## REPORTING THE UTILITIES FINANCIAL ACTIVITIES

### Fund Financial Statements

Milford Municipal Utilities utilizes one kind of fund:

Proprietary funds account for the Utility's Enterprise Funds. Enterprise Funds are used to report business type activities. The Utility maintains two Enterprise Funds to provide separate information for the electric and water funds, all are considered to be major funds of the utility.

The required financial statements for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in net assets.

Net Assets of Business Type Activities		
	Year ended June 30,	
	2008	2007
Current and other assets	\$ 4,273,465	\$ 2,796,194
Capital assets (net of depreciation)	10,102,339	9,156,659
Total assets	14,375,804	11,952,853
Long-term debt outstanding	4,960,504	3,467,576
Other liabilities	748,846	418,889
Total liabilities	5,709,350	3,886,465
Net assets:		
Invested in capital assets	5,141,835	5,689,083
Restricted	90,671	100,562
Unrestricted	3,433,948	2,276,743
Total net assets	\$ 8,666,454	\$ 8,066,388



The following analysis focuses on the change in net assets for the combined divisions of MMU:

Changes in Net Assets of Business Type Activities		
	Year ended June 30,	
	2008	2007
Revenues:		
Charges for service	\$ 3,478,403	\$ 3,232,305
General revenues:		
Unrestricted investment earnings	86,861	113,029
Other General revenues	520	512
Total revenues	3,565,784	3,345,846
Program expenses:		
Business type activities	2,965,718	3,019,020
Total expenses	2,965,718	3,019,020
Increase in net assets	600,066	326,826
Net assets beginning of year	8,066,388	7,647,562
Prior period adjustment	-	92,000
Net assets beginning of year, restated	8,066,388	7,739,562
Net assets end of year	\$ 8,666,454	\$ 8,066,388

## INDIVIDUAL MAJOR FUND ANALYSIS

As Milford Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$8.67 million, an increase of approximately \$600,000 under last year's total of \$8.07 million. The following are the major reasons for the changes in fund balances of the major funds from the prior year:

- Electric Fund revenues showed an increase of \$256,317 due to increased sales to customers due to a rate increase in December and increased usage. The Electric Fund expenses decreased \$106,804, attributable to the decrease in expense associated with power purchased from NIMECA. The ending fund balance was \$5,895,990, an increase of \$547,628 from last year.
- Water Fund revenues decreased by \$10,211 during 2008 as compared to 2007, due to a decrease in the number of gallons used. There were no water rate changes during the fiscal year. Expenses increased \$53,502, which can be attributed to increase in payroll and depreciation expense as compared to the prior year. The ending fund balance was \$2,770,464, an increase of \$52,438 from the prior year.

## **BUDGETARY HIGHLIGHTS**

MMU's disbursements for business type activities did not exceed the budgeted limit for 2008.

## **CAPTIAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2008, MMU had approximately \$10.1 million (net of depreciation) invested in a broad range of capital assets, including land, buildings, infrastructure, equipment, and vehicles. This is a net increase (including additions and deletions net of depreciation) of approximately \$945,000 or 10 percent as compared with last year. Depreciation charges totaled \$418,746 for the fiscal year 2008 and total accumulated depreciation of \$8,185,545 at June 30, 2008. See Note 3 to the financial statements for more information about the Utility's capital assets.

### **LONG TERM DEBT/LIABILITIES**

At June 30, 2008, MMU had \$4,960,504 in revenue bonds outstanding compared to \$3,467,576 at June 30, 2007. During the year ended June 30, 2008 the Utility issued a total of \$1,900,000 in revenue bonds to improve and extend the Municipal Electric Utility. Additional information about the Utility's long-term debt is presented in Note 4 to the financial statements.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

Milford Municipal Utilities remains committed to investing in the necessary capital improvements and major maintenance items on each distribution system enabling continued delivery for the utmost in reliable products and services.

For 2008, the MMU electric department will have a new substation transformer installed along with a new industrial circuit and associated equipment in the substation. In 2008 and 2009, Milford Municipal Utilities Electric department has planned an extensive construction and reconstruction project that will involve several parts of town. The construction project involves the installation of new underground electric wires and associated equipment for a separate circuit to Style Craft. This equipment being installed will help with the reliability and safety for the community.

Consistent with the need to invest for the future, Milford Municipal Utilities joined with other Cities and Utilities back in 1962 to purchase power from the dams on the Missouri River. We have enjoyed receiving this renewable energy ever since. You could say that Milford had the foresight 46 years ago to invest in renewable energy. In 1976 MMU power supplies were once again getting tight and needed to invest into an additional power source, so MMU became one of the owners of the Neal #4 Generating Station south of Sioux City. In 1997 MMU put an additional 6 MW of diesel generators to the existing 1 MW of older generation in our local power plant, of which all are used for peaking and

emergency power use. Once again MMU joined with other Iowa utilities to take the lead in partnering in renewable energy sources by moving into wind generation. MMU has a share in the Hancock Wind Farm that was put up in 2005 south of Ventura, Iowa in which we received 869,298 kWh last year. MMU also has a share in the Crosswinds Wind Farm south of Ruthven in which we received 366,240 kWh of electricity. This amounts to a combined total of 35% of our requirements for renewable energy. MMU is looking into another wind farm that we hope to receive an additional 3,150,000 kWh's per year which would give us a total of 45% of our total load requirements. So you can see the goal is simple: try to use proven technologies (like wind) in new ways to control energy costs, improve air quality by enhancing wind energy, and increase Iowa's energy supplies while helping the environment. But we still need additional baseload generation to cover our expected load growth and replacing existing aging power supplies. MMU is now in the process of purchasing of 2 MW of Sutherland #4 Power Generating Station in Marshalltown, Iowa with several other private and consumer owned utilities in Iowa. It's possible that this will be the last coal fired plant built in Iowa and won't be completed until 2013. Our Neal 4 plant will be 37 years old at that point, so this new plant will help us make it until a different base load plant will be built. It will take 20 years to get a nuclear plant built and there currently are none on the drawing board that we know of.

For the Water Department, the water tower has been repainted and we are doing a study in conjunction with the City of Milford to coordinate the replacement of water mains with the streets that need to be replaced. The MMU Board is going to raise the water rates approximately 3% for each of the next 3 years starting January 1, 2009.

## **CONTACTING THE UTILITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of MMU's finances and operating activities. If you have questions about this report or need additional information, please contact management at 806 N Ave, Milford, IA.

**MILFORD MUNICIPAL UTILITIES**  
**STATEMENT OF NET ASSETS**  
**JUNE 30, 2008 AND 2007**

	Business-Type Activities	
	2008	2007
<b>Assets:</b>		
Cash and Cash Equivalents	\$ 987,007	\$ 619,353
Accounts Receivable	354,474	396,615
Inventory	750,185	434,568
Other Current Assets	83,728	98,481
Restricted Assets	2,052,408	1,190,327
Other Assets	45,663	56,850
Capital Assets Not Being Depreciated	901,264	83,349
Capital Assets Being Depreciated - Net of Accumulated Depreciation	9,201,075	9,073,310
<b>Total Assets</b>	<b>14,375,804</b>	<b>11,952,853</b>
<b>Liabilities:</b>		
Accounts Payable	627,467	311,523
Accrued Interest	18,502	12,175
Salaries and Benefits Payable	27,146	24,346
Accrued Expenses	31,491	32,328
Consumers' Deposits	44,240	38,517
Long-Term Liabilities:		
Due or Payable Within One Year:		
Revenue Bonds/Notes	438,549	334,199
Due or Payable After One Year:		
Revenue Bonds/Notes	4,521,955	3,133,377
<b>Total Liabilities</b>	<b>5,709,350</b>	<b>3,886,465</b>
<b>Net Assets:</b>		
Invested in Capital Assets - Net of Related Debt	5,141,835	5,689,083
Restricted:		
Capital Projects	90,671	100,562
Unrestricted	3,433,948	2,276,743
<b>Total Net Assets</b>	<b>\$ 8,666,454</b>	<b>\$ 8,066,388</b>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	Business-Type Activities	
	2008	2007
<b>Operating Revenues:</b>		
Residential	\$ 1,416,928	\$ 1,321,525
Commercial	780,619	723,573
Demand	695,542	674,893
Tank Lot Water Sales	5,468	5,259
Meter Sales	14,527	17,013
Public Authorities	67,606	60,677
Water Department	26,714	28,706
Neal #4 Credits	263,208	137,729
Diesel Credits	188,576	242,546
Consumer Penalties	4,672	4,634
Miscellaneous Income	15,063	16,262
<b>Total Operating Revenues</b>	<b>3,478,923</b>	<b>3,232,817</b>
<b>Operating Expenses:</b>		
Direct Costs	1,478,052	1,610,684
Operating Expenses	458,282	428,816
Administrative Expenses	849,500	818,008
<b>Total Operating Expenses</b>	<b>2,785,834</b>	<b>2,857,508</b>
<b>Operating Income</b>	<b>693,089</b>	<b>375,309</b>
<b>Non-Operating Income (Expense):</b>		
Interest Income	78,488	104,136
Dividend Income	8,373	8,893
Interest Expense	(179,884)	(161,512)
<b>Total Non-Operating (Expense)</b>	<b>(93,023)</b>	<b>(48,483)</b>
<b>Change in Net Assets</b>	<b>600,066</b>	<b>326,826</b>
<b>Net Assets at Beginning of Year</b>	<b>8,066,388</b>	<b>7,647,562</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>92,000</b>
<b>Net Assets at Beginning of Year, Restated</b>	<b>8,066,388</b>	<b>7,739,562</b>
<b>Net Assets at End of Year</b>	<b>\$ 8,666,454</b>	<b>\$ 8,066,388</b>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES**  
**STATEMENT OF FUND NET ASSETS**  
**JUNE 30, 2008**  
**(WITH COMPARATIVE TOTALS FOR 2007)**

	<b>ASSETS</b>			
	<u>Electric Fund</u>	<u>Water Fund</u>	<u>Total 2008</u>	<u>Total 2007</u>
<b>Current Assets:</b>				
Cash and Cash Equivalents				
Unrestricted, Undesignated	\$ 448,248	\$ 33,212	\$ 481,460	\$ 187,312
Board Designated:				
Improvement and Extension	82,310	169,310	251,620	230,406
Vehicle and Equipment Funds	78,847	38,893	117,740	81,815
Fuel Oil Fund	33,233	-	33,233	32,102
Community Development Fund	102,954	-	102,954	87,718
Accounts Receivable	266,315	88,159	354,474	396,615
Inventory	707,623	42,562	750,185	434,568
Prepaid Expenses	23,871	16,555	40,426	65,190
Interest Receivable	-	-	-	5,619
Other Receivables	42,478	824	43,302	33,291
<b>Total Current Assets</b>	<u>1,785,879</u>	<u>389,515</u>	<u>2,175,394</u>	<u>1,554,636</u>
<b>Noncurrent Assets:</b>				
Purchased Service Rights (at cost)	13,470	-	13,470	13,470
CTS - Acquisition Costs (net)	32,193	-	32,193	37,761
Restricted Assets:				
Consumers' Deposit Fund	60,793	-	60,793	52,921
Revenue Bond Sinking Fund	37,329	26,170	63,499	61,219
Principal and Interest Reserve	-	114,021	114,021	349,000
CTS - Improvement Fund	90,671	-	90,671	100,562
Sewer Fund - District & City	11,073	-	11,073	22,716
Loan Proceeds For Future Capital Improvement	1,188,615	523,736	1,712,351	603,909
<b>Total Noncurrent Assets</b>	<u>1,434,144</u>	<u>663,927</u>	<u>2,098,071</u>	<u>1,241,558</u>
<b>Capital Assets:</b>				
Capital Assets	11,545,585	6,742,299	18,287,884	16,922,756
Accumulated Depreciation	(5,796,042)	(2,389,503)	(8,185,545)	(7,766,097)
<b>Total Capital Assets</b>	<u>5,749,543</u>	<u>4,352,796</u>	<u>10,102,339</u>	<u>9,156,659</u>
<b>Total Assets</b>	<u>\$ 8,969,566</u>	<u>\$ 5,406,238</u>	<u>\$14,375,804</u>	<u>\$11,952,853</u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES**  
**STATEMENT OF FUND NET ASSETS - Continued**  
**JUNE 30, 2008**  
**(WITH COMPARATIVE TOTALS FOR 2007)**

**LIABILITIES AND NET ASSETS**

	Electric Fund	Water Fund	Total 2008	Total 2007
<b>Current Liabilities:</b>				
Accounts Payable	\$ 413,604	\$ 213,863	\$ 627,467	\$ 311,523
Accrued Employee Benefits	17,188	5,819	23,007	23,173
Accrued Interest	10,536	7,966	18,502	12,175
Accrued Payroll Taxes	2,805	1,334	4,139	1,173
Accrued Sales Tax	5,770	2,589	8,359	9,527
Accrued Property Tax	14,358	-	14,358	14,426
Accrued Wheeling	8,774	-	8,774	8,375
Consumers' Deposits	44,240	-	44,240	38,517
Current Portion of Long-Term Debt	266,972	171,577	438,549	334,199
<b>Total Current Liabilities</b>	<u>784,247</u>	<u>403,148</u>	<u>1,187,395</u>	<u>753,088</u>
<b>Notes Payable:</b>				
Revenue Capital Loan Notes Payable	2,556,296	2,404,208	4,960,504	3,467,576
Less - Current Portion	(266,972)	(171,577)	(438,549)	(334,199)
<b>Total Notes Payable</b>	<u>2,289,324</u>	<u>2,232,631</u>	<u>4,521,955</u>	<u>3,133,377</u>
<b>Total Liabilities</b>	3,073,571	2,635,779	5,709,350	3,886,465
<b>Net Assets:</b>				
Invested in Capital Assets - Net of Related Debt	3,193,247	1,948,588	5,141,835	5,689,083
Restricted:				
Capital Projects	90,671	-	90,671	100,562
Unrestricted	2,612,077	821,871	3,433,948	2,276,743
<b>Total Net Assets</b>	<u>5,895,995</u>	<u>2,770,459</u>	<u>8,666,454</u>	<u>8,066,388</u>
<b>Total Liabilities and Net Assets</b>	<u><u>\$8,969,566</u></u>	<u><u>\$5,406,238</u></u>	<u><u>\$ 14,375,804</u></u>	<u><u>\$11,952,853</u></u>

See Accompanying Notes to Financial Statements

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**MILFORD MUNICIPAL UTILITIES**  
**STATEMENTS OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE TOTALS FOR 2007)**

	Electric Fund	Water Fund	Total 2008	Total 2007
<b>Operating Revenues:</b>				
Residential	\$ 1,078,745	\$ 338,183	\$ 1,416,928	\$ 1,321,525
Commercial	460,625	319,994	780,619	723,573
Demand	695,542	-	695,542	674,893
Tank Lot Water Sales	-	5,468	5,468	5,259
Meter Sales	-	14,527	14,527	17,013
Public Authorities	67,606	-	67,606	60,677
Water Department	26,714	-	26,714	28,706
Neal #4 Credits	263,208	-	263,208	137,729
Diesel Credits	188,576	-	188,576	242,546
Consumer Penalties	3,764	908	4,672	4,634
Miscellaneous Income	9,067	5,996	15,063	16,262
<b>Total Operating Revenues</b>	<b>2,793,847</b>	<b>685,076</b>	<b>3,478,923</b>	<b>3,232,817</b>
<b>Operating Expenses:</b>				
Direct Costs	1,369,448	108,604	1,478,052	1,610,684
Other Operating Expenses	294,719	163,563	458,282	428,816
Administrative Expenses	547,764	301,736	849,500	818,008
<b>Total Operating Expenses</b>	<b>2,211,931</b>	<b>573,903</b>	<b>2,785,834</b>	<b>2,857,508</b>
<b>Operating Income</b>	<b>581,916</b>	<b>111,173</b>	<b>693,089</b>	<b>375,309</b>
<b>Non-Operating Income (Expense):</b>				
Interest Income	40,768	37,720	78,488	104,136
Dividend Income	5,685	2,688	8,373	8,893
Interest Expense	(80,741)	(99,143)	(179,884)	(161,512)
<b>Total Non-Operating (Expense)</b>	<b>(34,288)</b>	<b>(58,735)</b>	<b>(93,023)</b>	<b>(48,483)</b>
<b>Change in Net Assets</b>	<b>547,628</b>	<b>52,438</b>	<b>600,066</b>	<b>326,826</b>
<b>Net Assets at Beginning of Year</b>	<b>5,348,362</b>	<b>2,718,026</b>	<b>8,066,388</b>	<b>7,647,562</b>
<b>Prior Period Adjustment</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>92,000</b>
<b>Net Assets at Beginning of Year, Restated</b>	<b>5,348,362</b>	<b>2,718,026</b>	<b>8,066,388</b>	<b>7,739,562</b>
<b>Net Assets at End of Year</b>	<b>\$ 5,895,990</b>	<b>\$ 2,770,464</b>	<b>\$ 8,666,454</b>	<b>\$ 8,066,388</b>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES  
STATEMENTS OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2008  
(WITH COMPARATIVE TOTALS FOR 2007)**

	Electric Fund	Water Fund	Total 2008	Total 2007
<b>Cash Flows From Operating Activities:</b>				
Cash Received From Customers	\$ 2,816,728	\$ 703,819	\$ 3,520,547	\$ 3,200,357
Cash Paid to Suppliers	(1,767,683)	(119,521)	(1,887,204)	(1,988,972)
Cash Paid to Employees	(290,907)	(146,464)	(437,371)	(404,852)
Net Cash Provided By Operating Activities	<u>758,138</u>	<u>437,834</u>	<u>1,195,972</u>	<u>806,533</u>
<b>Cash Flows From Capital and Related Financing Activities:</b>				
Acquisition and Construction of Capital Assets	(1,096,222)	(255,777)	(1,351,999)	(805,431)
Revenue Bond Principal Repayment	(241,190)	(165,882)	(407,072)	(1,267,064)
Revenue Bond Proceeds	1,900,000	-	1,900,000	925,000
Interest Paid	(70,205)	(99,687)	(169,892)	(183,237)
Net Cash Provided (Used) By Capital and Related Financing Activities	<u>492,383</u>	<u>(521,346)</u>	<u>(28,963)</u>	<u>(1,330,732)</u>
<b>Cash Flows From Investing Activities:</b>				
Proceeds From Redemption of Investments	697,270	70,895	768,165	763,567
Purchase of Investments	(1,660,000)	-	(1,660,000)	(559,000)
Interest Received From Investments	49,259	43,221	92,480	113,965
Net Cash Provided (Used) From Investing Activities	<u>(913,471)</u>	<u>114,116</u>	<u>(799,355)</u>	<u>318,532</u>
<b>Net Increase (Decrease) in Cash</b>	<b>337,050</b>	<b>30,604</b>	<b>367,654</b>	<b>(205,667)</b>
<b>Cash at Beginning of Year</b>	<b>408,542</b>	<b>210,811</b>	<b>619,353</b>	<b>825,020</b>
<b>Cash at End of Year</b>	<b><u>\$ 745,592</u></b>	<b><u>\$ 241,415</u></b>	<b><u>\$ 987,007</u></b>	<b><u>\$ 619,353</u></b>
<b>Reconciliation:</b>				
Cash and Cash Equivalents				
Unrestricted, Undesignated	\$ 448,248	\$ 33,212	\$ 481,460	\$ 187,312
Board Designated:				
Improvement and Extension	82,310	169,310	251,620	230,406
Vehicle and Equipment Funds	78,847	38,893	117,740	81,815
Fuel Oil Fund	33,233	-	33,233	32,102
Community Development Fund	102,954	-	102,954	87,718
	<u>\$ 745,592</u>	<u>\$ 241,415</u>	<u>\$ 987,007</u>	<u>\$ 619,353</u>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES**  
**STATEMENTS OF CASH FLOWS - Continued**  
**FOR THE YEAR ENDED JUNE 30, 2008**  
**(WITH COMPARATIVE TOTALS FOR 2007)**

	Electric Fund	Water Fund	Total 2008	Total 2007
<b>Reconciliation of Operating Income to Net Cash Provided By Operating Activities:</b>				
Operating Income	\$ 581,916	\$ 111,173	\$ 693,089	\$ 375,309
<b>Adjustments to Reconcile Operating Income to Net Cash Provided By Operating Activities:</b>				
Depreciation	247,814	170,932	418,746	383,820
Amortization	5,568	-	5,568	26,139
(Increase) Decrease in Operating Assets:				
Accounts Receivable	22,877	19,264	42,141	(25,129)
Inventory	(316,894)	1,277	(315,617)	(38,061)
Prepaid Expenses	2,497	22,267	24,764	7,712
Other Receivables	(9,490)	(521)	(10,011)	(3,479)
Consumer Deposits Fund	(7,872)	-	(7,872)	(4,196)
CTS Improvement Fund	9,891	-	9,891	39,714
Sewer Fund - District & City	11,643	-	11,643	(1,531)
Increase (Decrease) in Operating Liabilities:				
Accounts Payable	202,837	113,107	315,944	47,887
Accrued Employee Benefits	(713)	547	(166)	105
Accrued Payroll Taxes	2,028	938	2,966	(77)
Accrued Sales Tax	(18)	(1,150)	(1,168)	618
Accrued Property Tax	(68)	-	(68)	(4,188)
Accrued Wheeling	399	-	399	15
Consumer Deposits	5,723	-	5,723	1,875
<b>Net Cash Provided By Operating Activities</b>	<b>\$ 758,138</b>	<b>\$ 437,834</b>	<b>\$ 1,195,972</b>	<b>\$ 806,533</b>

See Accompanying Notes to Financial Statements

**MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Reporting Entity**

The financial statements of Milford Municipal Utilities include the Electric and Water enterprise funds which provide services to the residents of the City of Milford. Milford Municipal Utilities is governed by a five-member board of trustees, which is appointed by the Mayor of the City of Milford. Based on the criteria set forth by the Governmental Accounting Standards Board, Milford Municipal Utilities is considered a component unit of the City of Milford. However, the City's audit covers the primary government only; therefore it does not include financial information concerning the Utilities.

For financial reporting purposes, the Milford Municipal Utilities has included all funds, organizations, agencies, boards, commissions, and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the component unit are such that exclusion would cause the component unit's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (a) the ability of the Utilities to impose its will on that organization or (b) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. Milford Municipal Utilities has no component units.

**B. Government-wide Financial Statements**

The government-wide financial statements include the Statement of Net Assets and the Statement of Activities, which report information on all of the activities of the Utilities. For the most part, the effect of interfund activity has been removed from these statements.

The Statement of Net Assets reports three categories of net assets:

*Invested in Capital Assets, Net of Related Debt* – consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*Restricted Net Assets* – result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted Net Assets* – consist of net assets not meeting the definition of the two preceding categories. Unrestricted Net Assets often have constraints on resources imposed by management which can be removed or modified.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

**MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

**C. Fund Financial Statements**

Major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities report the following major enterprise funds:

*Electric Fund* – The Electric Fund accounts for the operation and maintenance of the electric distribution system.

*Water Fund* – The Water Fund accounts for the operation and maintenance of the water distribution system.

**D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The accounts of Milford Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The Utilities' financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

In reporting the financial activity of its enterprise funds, the Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

The Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Utilities' principal ongoing operations. The principal operating revenues of the Utilities are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**E. Assets, Liabilities, and Fund Equity**

The following accounting policies are followed in preparing the financial statements:

Cash and Cash Equivalents

For the purpose of the statement of cash flows, the Utilities considers as cash and cash equivalents all unrestricted currency on hand, demand and other deposit accounts with banks or other financial institutions, and certificates of deposits with an original maturity of three months or less.

Accounts Receivable

Accounts receivable and revenue are recorded at the time service is billed. Unbilled revenue for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which service is provided. Accounts are reviewed annually; accounts considered uncollectible are written off at that time. Management believes there are no material uncollectible accounts at June 30, 2008.

**MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out (FIFO) basis. Inventories are recorded as an expenditure or, if applicable, capitalized when used in construction of distribution system.

Capital Assets

Capital assets, which include property, plant and equipment, are stated at cost. The report sets forth the original cost of the assets and accumulated depreciation thereon, based on depreciation rates commensurate with the average normal useful life of the various components of the plant and system. Subsequent additions to the plant and system are recorded on the basis of materials and direct labor costs only and no overhead to cover such items as payroll taxes, materials, handling and transportation has been capitalized. The Utilities accounted for existing infrastructure through the use of an independent engineer's report.

Replacements and betterments of capital assets are charged to capital assets. Routine maintenance and repairs are charged to expense as incurred.

Depreciation rates have been applied on a straight-line basis. Estimated useful lives, in years, for depreciable assets are as follows:

Building and plant	20-50
Equipment	7-20
Distribution System	20-67

Other Assets

CTS acquisition costs are being amortized on a straight-line basis over 25 years, and are presented at the net value. Loan costs related to issued capital notes are being amortized on a straight-line basis over 15 years, which approximates the effective interest method, and are presented at the net value.

Current Liabilities

The accrued wheeling and property taxes represent charges for the transmission of power over the power lines.

**MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued**

Net Assets

Net assets represent the difference between assets and liabilities in the financial statements. The Utilities' policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Income Taxes

The Utilities is exempt from federal and state income taxes because it is a governmental entity organized under the provisions of Chapter 388 of the Code of Iowa.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Budgets and Budgetary Accounting

The Board of Trustees of Milford Municipal Utilities submits an annual budget prepared on the accrual basis independent from the City of Milford.

**Note 2 – CASH AND CASH EQUIVALENTS AND NONCURRENT INVESTMENTS**

The Utilities' deposits in banks at June 30, 2008, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high-rated commercial paper; perfected repurchase agreement; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities had no assets classified as investments at June 30, 2008.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 3 – CAPITAL ASSETS**

Capital assets activity for the year ended June 30, 2008 was as follows:

<b><u>Water Fund</u></b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deletions</b>	<b>Ending Balance</b>
Capital Assets Not Being Depreciated:				
Land	\$ 37,855	\$ 20,289	\$ -	\$ 58,144
Construction in Progress	-	146,251	-	146,251
Total Capital Assets Not Being Depreciated	37,855	166,540	-	204,395
Capital Assets Being Depreciated:				
Production Plant:				
Buildings	3,212,918	-	-	3,212,918
Intakes	79,733	-	-	79,733
Equipment	1,100,899	3,296	-	1,104,195
Mains	1,169,773	6,506	-	1,176,279
Wells	198,130	-	-	198,130
Storage and Distribution Plant:				
Towers	251,067	68,262	-	319,329
Mains, Hydrants, and Service	219,113	427	-	219,540
Meters	200,095	10,746	-	210,841
General Plant:				
Tools and Work Equipment	16,939	-	-	16,939
Total Capital Assets Being Depreciated	6,448,667	89,237	-	6,537,904
Less: Accumulated Depreciation	2,221,813	167,690	-	2,389,503
Total Capital Assets Being Depreciated, net	4,226,854	(78,453)	-	4,148,401
Total Capital Assets, net	\$ 4,264,709	\$ 88,087	\$ -	\$ 4,352,796



**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 3 – CAPITAL ASSETS – Continued**

<u><b>Electric Fund</b></u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 32,365	\$ 26,289	\$ -	\$ 58,654
Construction in Progress	13,128	829,481	-	842,609
<b>Total Capital Assets Not Being Depreciated</b>	<b>45,493</b>	<b>855,770</b>	<b>-</b>	<b>901,263</b>
<b>Capital Assets Being Depreciated:</b>				
<b>Production Plant:</b>				
Building	391,242	-	-	391,242
Machinery and Equipment	674,191	7,916	-	682,107
Accessory Electric Equipment	764,155	-	-	764,155
Neal #4	1,285,630	5,131	(5,472)	1,285,289
Common Transmission System	1,512,760	66,231	-	1,578,991
<b>Distribution Plant:</b>				
Distribution Facilities	5,091,777	153,551	-	5,245,328
Street Lights and Signal Systems	228,627	20,524	-	249,151
<b>General Plant:</b>				
Transportation Equipment	305,026	-	-	305,026
Other Equipment	137,333	5,700	-	143,033
<b>Total Capital Assets Being Depreciated</b>	<b>10,390,741</b>	<b>259,053</b>	<b>(5,472)</b>	<b>10,644,322</b>
<b>Less: Accumulated Depreciation</b>	<b>5,544,284</b>	<b>257,230</b>	<b>(5,472)</b>	<b>5,796,042</b>
<b>Total Capital Assets Being Depreciated, net</b>	<b>4,846,457</b>	<b>1,823</b>	<b>-</b>	<b>4,848,280</b>
<b>Total Capital Assets, net</b>	<b>\$ 4,891,950</b>	<b>\$ 857,593</b>	<b>\$ -</b>	<b>\$ 5,749,543</b>
<b>Total Business Type Capital Assets, net</b>	<b>\$ 9,156,659</b>	<b>\$ 945,680</b>	<b>\$ -</b>	<b>\$ 10,102,339</b>

The Electric Utility's 0.347% ownership interest in George Neal Generating Station No. 4 represents a total investment of \$1,285,289 included in utility plant in service with \$998,689 included in accumulated depreciation.

**MILFORD MUNICIPAL UTILITIES  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2008**

**Note 3 – CAPITAL ASSETS – Continued**

<b>Reconciliation of Investment in Capital Assets:</b>	<b>Water Fund</b>	<b>Electric Fund</b>
Total Capital Assets, Net	\$ 4,352,796	\$ 5,749,543
Less: Related Debt	<u>2,404,208</u>	<u>2,556,296</u>
Investment in Capital Assets, Net of Related Debt	<u>\$ 1,948,588</u>	<u>\$ 3,193,247</u>

**Note 4 - LONG-TERM DEBT**

A summary of the changes in long-term debt for the year ended June 30, 2008 is as follows:

<b><u>Water Fund</u></b>	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Due Within One Year</b>
Series 2003 Revenue Bonds	\$ 947,903	\$ -	\$ 70,353	\$ 877,550	\$ 73,423
Series 2005 Revenue Bonds	1,622,187	-	95,529	1,526,658	98,154
Total Water Revenue Bonds	<u>2,570,090</u>	<u>-</u>	<u>165,882</u>	<u>2,404,208</u>	<u>171,577</u>
 <b><u>Electric Fund</u></b>					
Series 2007 Revenue Bonds	897,486	-	199,412	698,074	177,578
Series 2008 Revenue Bonds	-	1,900,000	41,778	1,858,222	89,394
Total Electric Revenue Bonds	<u>897,486</u>	<u>1,900,000</u>	<u>241,190</u>	<u>2,556,296</u>	<u>266,972</u>
Total Revenue Bonds	<u>\$ 3,467,576</u>	<u>\$ 1,900,000</u>	<u>\$ 407,073</u>	<u>\$ 4,960,504</u>	<u>\$ 438,549</u>

The resolutions concerning the issuance of the above noted revenue bonds all include requirements for the Utility to maintain Sinking and Reserve Funds. United Community Bank, the sole owner of the bonds has waived these fund requirements.

**Water Fund**

On June 24, 2003, the Utility issued a Water Revenue Refinancing Capital Loan Note – Series 2003, in the amount of \$1,200,000. The note bears interest at the rate of 3.5% per annum and matures on August 1, 2004 through July 1, 2018. The monthly payment required is \$8,579, including interest.

On May 25, 2005 the Utility issued Water Revenue Capital Loan Notes in the amount of \$1,800,000. The notes bear interest at 4.25% and mature from December, 2005 to June, 2020 and require monthly payments of \$13,552.

The Series 2003 and Series 2005 Capital Loan Notes are secured by future net revenues of the Water Utility.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 4 - LONG-TERM DEBT – Continued**

A summary of the Water Fund's long-term indebtedness follows:

	Series 2003 Revenue Bonds		Series 2005 Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	73,423	29,524	98,154	63,042
2010	76,034	26,913	102,408	58,788
2011	78,739	24,209	106,846	54,350
2012	81,540	21,408	111,476	49,720
2013	84,440	18,508	116,307	44,889
2014-2018	469,442	45,297	661,658	144,323
2019-2021	13,933	53	329,808	15,997
Total	<u>\$ 877,551</u>	<u>\$ 165,912</u>	<u>\$ 1,526,657</u>	<u>\$ 431,109</u>

**Electric Fund**

During the year ended June 30, 2007, the Utility issued electric revenue refunding notes in the amount of \$925,000 to refund the about 1997 issue prior to maturity to realize debt service savings due to lower interest rates on the new issue. The note bears interest of 4.90%, and matures monthly from May 1, 2007 to April 1, 2012. The monthly payment required is \$17,443.06, including interest.

During the year ended June 30, 2008, the Utility issued electric revenue notes in the amount of \$1,900,000 for the construction costs related to an improvements and extension to the Municipal Electric Utility. The note bears interest of 4.95%, and matures monthly from February 1, 2008 to January 1, 2013. The monthly payment required is \$14,965.38, including interest. The last monthly payment is a lump sum payment of \$1,429,065, including interest.

A summary of the Electric Fund's June 30, 2008 long-term indebtedness is as follows:

	Series 2007 Revenue Bonds		Series 2008 Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	177,578	31,738	89,394	90,191
2010	186,478	22,838	93,920	85,664
2011	195,823	13,493	98,676	80,908
2012	138,195	3,768	103,673	75,911
2013	-	-	1,472,559	41,874
Total	<u>\$ 698,074</u>	<u>\$ 71,837</u>	<u>\$ 1,858,222</u>	<u>\$ 374,548</u>

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 5 - PENSION AND RETIREMENT BENEFITS**

The Utilities contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% through June 30, 2007 and 3.90% presently of their annual covered salary and the Utilities are required to contribute 5.75% through June 30, 2007 and 6.05% presently of covered payroll. Contribution requirements are established by State statute. The Utilities contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$23,464, \$20,565 and \$20,788, respectively, equal to the required contributions for each year.

**Note 6 - RATES**

The Utilities' rates are established by the Board of Trustees and, as a municipal system, are not subject to the regulation of the Utilities Division of the Department of Commerce of the State of Iowa.

Effective December 20, 2007, the Electric Utility increased user rates for all consumption by 10%.

**Note 7 - LEASES**

Under a joint ownership agreement with other utilities, the Electric Utility has a 0.347% undivided interest in a 640 MW electric generation station known as George Neal Generating Station No. 4. The Electric Utility leases electrical generation capacity of its share of the Neal 4 plant under operating leases to other utilities or their associations. The revenues from such leases are included in operating income. The Utility's investment in these facilities is included in capital assets in service and is set forth in Note 3. Operating costs associated with this plant and depreciation are reflected in the statement of activities.

**Note 8 - RISK MANAGEMENT**

Milford Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions, injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2008**

**Note 9 – COMMITMENTS**

During 2008, the Electric Utility entered into an agreement to purchase a 2 megawatt ownership in the generating facilities at Sutherland Generating Station Unit 4. The plant is estimated to be in production in 2013. The commitment of Milford Municipal Utilities, in order to maintain its percentage of ownership, is expected to approximate \$5,900,000. Approximately \$103,237 had been paid or accrued resulting in a future commitment of approximately \$5,796,763. Future payments by the Utility will be required as construction progresses.

During 2008, the Electric Utility entered into a construction contract totaling \$474,598 for electric improvements to be completed in the following year. \$121,462 was paid as of June 30, 2008.

**MILFORD MUNICIPAL UTILITIES  
BUDGETARY COMPARISON SCHEDULE OF  
REVENUES, EXPENSES, AND CHANGES IN BALANCES - BUDGET & ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2008**

	Actual	Budget	Final to Actual Variance
<b>Receipts:</b>			
Charges For Services	\$ 3,478,923	\$ 3,240,610	\$ 238,313
Non-Operating	86,861	106,676	(19,815)
Total Receipts	<u>3,565,784</u>	<u>3,347,286</u>	<u>218,498</u>
<b>Expenditures:</b>			
Electric	2,292,672	2,478,583	185,911
Water	673,046	743,895	70,849
Total Expenditures	<u>2,965,718</u>	<u>3,222,478</u>	<u>256,760</u>
<b>Net Change in Net Assets</b>	600,066	124,808	475,258
<b>Net Assets at Beginning of Year</b>	<u>8,066,388</u>	<u>7,763,407</u>	
<b>Net Assets at End of Year</b>	<u><u>\$ 8,666,454</u></u>	<u><u>\$ 7,888,215</u></u>	

See Accompanying Independent Auditors' Report

**MILFORD MUNICIPAL UTILITIES**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION –**  
**BUDGETARY REPORTING**  
**YEAR ENDED JUNE 30, 2008**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the utility.

In accordance with the Code of Iowa, Milford Municipal Utilities annually adopt a budget, following required public notice and hearing. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. All Utilities' disbursements are included in business-type activities function. During the year ended June 30, 2008, disbursements did not exceed the amounts budgeted.

**MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND  
ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Direct Costs:</b>		
Distribution Maintenance	\$ 13,515	\$ 14,923
Equipment Maintenance	32,694	45,683
Neal #4 Charges - Coal, Oil, Power Generator	233,871	218,135
Purchased Power	5,539	4,770
Purchased Power - NIMECA	807,990	977,324
Purchased Power - WAPA	257,891	221,799
Wheeling	17,948	16,919
<b>Total Direct Costs</b>	<u>1,369,448</u>	<u>1,499,553</u>
<b>Other Operating Expenses:</b>		
Salaries	257,632	237,869
Small Tools and Supplies	6,309	16,743
Sub-Contractor	2,934	10,955
Vehicle Expense	26,992	20,498
Miscellaneous Operating Expenses	852	522
<b>Total Other Operating Expenses</b>	<u>294,719</u>	<u>286,587</u>



**MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND  
ADMINISTRATIVE EXPENSES FOR THE ELECTRIC FUND  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Administrative Expenses:</b>		
Advertising	\$ -	\$ 371
Amortization	5,568	26,139
Bad debts	4,442	3,256
Building Maintenance - Office	10,851	10,107
Building Maintenance - Mowing	3,491	2,093
Community Development	4,639	2,033
Computer Repairs and Maintenance	1,000	2,921
Computer Supplies and Programs	1,840	1,483
Depreciation	247,814	251,131
Director Fees	3,724	2,969
Dues and Subscriptions	5,594	5,280
Education and Safety	1,950	2,870
Employee Benefits	39,802	41,533
Insurance - General	32,914	32,585
Laundry and Uniforms	844	1,683
Legal and Professional	23,572	20,724
Maintenance - Office Equipment	516	151
Miscellaneous	945	797
Office Supplies	9,322	7,699
Payroll Taxes - FICA and IPERS	34,590	31,239
Postage	5,426	5,695
Property Taxes	15,566	15,555
Rebates	5,150	10,434
Supplies	287	594
Sales Tax Paid	79,147	71,048
Telephone	4,481	3,864
Travel	2,758	2,791
Utilities and Sanitation	352	306
Inventory Adjustment	1,179	(30)
<b>Total Administrative Expenses</b>	<u>547,764</u>	<u>557,321</u>
<b>Total</b>	<u><u>\$ 2,211,931</u></u>	<u><u>\$2,343,461</u></u>

**MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND  
ADMINISTRATIVE EXPENSES FOR THE WATER FUND  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Direct Costs:</b>		
Distribution Maintenance	\$ 1,085	\$ 3,632
Equipment Maintenance	11,640	10,322
Lab	8,481	8,419
Plant Maintenance	22,636	19,942
Product - Chlorine and Flouride	34,127	34,706
Purchased Power	26,714	29,340
Sewer Charges	3,921	4,770
<b>Total Direct Costs</b>	<u>108,604</u>	<u>111,131</u>
<b>Other Operating Expenses:</b>		
Salaries	130,193	119,791
Small Tools and Supplies	1,841	1,914
Sub-Contractor	27,481	17,608
Vehicle Expense	3,564	2,756
Miscellaneous Operating Expenses	484	160
<b>Total Other Operating Expenses</b>	<u>163,563</u>	<u>142,229</u>

**MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF DIRECT COSTS, OPERATING COSTS, AND  
ADMINISTRATIVE EXPENSES FOR THE WATER FUND  
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007**

	<u>2008</u>	<u>2007</u>
<b>Administrative Expenses:</b>		
Bad debts	\$ 394	\$ 669
Building Maintenance - Office	430	677
Building Maintenance - Mowing	3,541	2,508
Community Development	95	1,780
Computer Repairs and Maintenance	2,266	2,917
Depreciation	170,932	132,689
Director Fees	2,325	2,350
Dues and Subscriptions	2,010	2,143
Education and Safety	543	1,231
Employee Benefits	22,337	21,407
Insurance - General	20,131	21,278
Laundry and Uniforms	725	571
Legal and Professional	8,624	6,230
Maintenance - Office Equipment	549	151
Miscellaneous	-	13
Office Supplies	8,540	7,105
Payroll Taxes - FICA and IPERS	17,756	15,981
Postage	6,006	5,344
Supplies	176	707
Sales Tax Paid	31,331	32,861
Telephone	1,712	1,676
Travel	6	233
Utilities and Sanitation	146	186
Inventory Adjustment	1,161	(20)
<b>Total Administrative Expenses</b>	<u>301,736</u>	<u>260,687</u>
 <b>Total</b>	 <u><u>\$ 573,903</u></u>	 <u><u>\$ 514,047</u></u>



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT  
AUDITING STANDARDS**

Board of Trustees  
Milford Municipal Utilities  
Milford, IA 51351

We have audited the financial statements of the Milford Municipal Utilities as of and for the year ended June 30, 2008, and have issued our report thereon dated November 1, 2008. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Milford Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Milford Municipal Utilities' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with U.S. generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the utilities' financial statements that is more than inconsequential will not be prevented or detected by the utilities' internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the utilities' internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiencies described above, items I-A-08 and I-B-08, are a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Milford Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under *Government Auditing Standards*.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Milford Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the Utilities' responses, we did not audit the Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended for the information and use of the officials, employees and citizens of the City of Milford and other parties to whom the Milford Municipal Utilities may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Milford Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

*Williams & Company, P.C.*

Certified Public Accountants

Spencer, Iowa  
November 7, 2008

**MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008**

**Part II: Other Findings Related to Required Statutory Reporting**

- II-A-08      Certified Budget – Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted in the business type activities function.
- II-B-08      Questionable Disbursements – No expenditures were noted which did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-08      Travel Expense – No expenditures of the Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.
- II-D-08      Business Transactions – Business transactions between the Utilities and Utilities' officials are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
James Studer, Trustee Owner, Excel Auto Body, Ltd.	Maintenance	\$ 65

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Trustees do not appear to represent conflicts of interest, since total transactions with each Trustee did not exceed \$1,500 during the fiscal year.

- II-E-08      Bond Coverage – Surety bond coverage of Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.
- II-F-08      Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- II-G-08      Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted, except as follows:
- The Utilities has not updated their written investment policy for provisions of Chapter 12B and 12C of the Code of Iowa.
- Recommendation – The Utilities should update their written investment policy for provisions of Chapter 12B and 12C of the Code of Iowa.
- Response – An updated investment policy will be drafted and adopted as recommended.
- Conclusion – Response accepted.
- II-H-08      Revenue Notes – The Utilities has complied with the water and electric revenue note provisions or has received a waiver of the requirements from the holder of the notes.

**MILFORD MUNICIPAL UTILITIES  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2008**

**Part I: Findings Related to the Financial Statements**

I-A-08 Segregation of Duties – During our review of internal control structure, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent losses from employee error or dishonesty and therefore maximizes the accuracy of the Utilities' financial statements.

Recommendation – We realize that it is difficult to appropriately segregate duties when the number of employees is limited. Therefore, we recommend the Board maintain their diligence in the review of the financial records.

Response – We will continue our review.

Conclusion – Response accepted.

I-B-08 Financial Reporting – During the audit, we identified adjustments which could result in material amounts of capital asset additions and depreciation not recorded in the Utilities' financial statements. Adjustments were subsequently made by the Utilities' to properly include these amounts in the financial statements.

Recommendation – The Utility should implement procedures to ensure all capital asset additions and depreciation are identified and included in the financial statements in the future.

Response – We will revise our current procedures to ensure the proper amounts are recorded in the financial statements in the future.

Conclusion – Response accepted.